Letter of Comment No. 255
File Reference No. 19-20E
Date Received: 1/30/2015

PARTNERSHIP for Working Families

ALIGN: The Alliance for a Greater New York
New York, NY
www.alignny.org

Center on Policy Initiatives
San Diego, CA
www.onlinecpi.org

Central Arizonans for a Sustainable Economy
Phoenix, AZ
www.centralarizonans.org

Central Coast Alliance United for a Sustainable Economy
Ventura, CA
www.coastalalliance.com

Good Jobs, Livable Neighborhoods
Citizen Action of Wisconsin Education Fund
Milwaukee, WI
www.citizenactionwifund.org

Community Labor United
Boston, MA
www.massclu.org

Connecticut Center for a New Economy
Hartford, CT
www.ctneweconomy.org

East Bay Alliance for a Sustainable Economy
Oakland, CA
www.workingeastbay.org

FRESC: Good Jobs-Strong Communities
Denver, CO
www.fresc.org

Georgia STAND-UP
Atlanta, GA
www.georgiastandup.org

ISAIAH
Minneapolis, MN
www.isaiah-mn.org

Los Angeles Alliance for a New Economy
Los Angeles, CA
www.laane.org

Orange County Communities Organized for Responsible Development
Garden Grove, CA
www.occord.org

Pittsburgh UNITED
Pittsburgh, PA
www.pittsburghunited.org

POWER
Philadelphia, PA
www.powerphiladelphia.org

Puget Sound Sage
Seattle, WA
www.pugetsoundsage.org

Working Partnerships USA
San Jose, CA
www.wpusa.org

January 30, 2015

Sent via email to: director@gasb.org

RE: Project No. 19-20E

Mr. David R. Bean, CPA
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

We write in strong support of GASB's Exposure Draft on Tax Abatement Disclosures. The proposed access to information on state and local subsidies can facilitate transparency, accountability, and enable massive new bodies of analysis of economic development policies. We commend you on taking considerable steps towards creating such a standard.

To strengthen the standard and increase its utility even further, we, together with our powerful network of local organizations, recommend incorporating recipient-specific reporting, future year liability disclosure, and Tax Increment Financing to the reporting requirements.

As background on our credentials on this subject:

The Partnership for Working Families (PWF) is a 501(c)(3) non-profit which supports innovative solutions to our nation's economic and environmental challenges. As national experts on local economic development spending, the Partnership provides technical assistance to a network of 17 affiliates and has helped pioneer Community Benefits Agreements, wherein local coalitions and developers agree to project-specific enhancements to maximize the value of a project to a community's incumbent resident. Through developing and promoting innovative approaches to subsidy allocation and approvals, redevelopment policy, housing policy, and workforce development, the Partnership has leveraged its substantial network of organizations for over a decade to help establish strong, equitable, and sustainable urban economies.

The Alliance for a Greater New York (ALIGN) is a 501(c)(3) non-profit that has advocated for reforming New York State's subsidy system to make it more accountable and effective for more than seven years. In 2013, ALIGN analyzed 15 of the largest economic development programs in the State of New York, publishing

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the results in The $7 Billion Wager: New York's Costly Gamble in Economic Development. ALIGN's work in New York has resulted in the introduction of the Just and Open Business Subsidies (JOBS) Act in the state legislature. The JOBS act introduced a comprehensive approach to reforming New York's economic development system, which is likely to pass in 2015.

The Center on Policy Initiatives (CPI) is a non-profit 501(c)(3) research and action institute dedicated to advancing economic equity for working people and diverse communities throughout the San Diego region. CPI's research and analysis on poverty, healthcare, affordable housing and local government have shaped public debate for the last 10 years. It is regularly sought by local and state policymakers to inform them on topics such as the economy, local governments, and redevelopment.

FRESC: Good Jobs – Strong Communities is a Denver-based 501(c)(3) non-profit which works towards an equitable economic and political system for all Colorado residents. FRESC uses a research, policy development, and public interest organizing approach to promote accountable development and to ensure that public spending produces tangible benefits, especially for low-income people, communities of color, and immigrants.

Orange County Communities Organized for Responsible Development (OCCORD) is a 501(c)(3)non-profit which advocates for responsible public investment and development in Orange County, California, through organizing, research, and activism. OCCORD strongly believes that development involving public subsidies of any form should contribute to the well-being of the community, and the taxpayers who are supporting it.

Working Partnerships USA (WPUSA) is a 501(c)(3) non-profit in Santa Clara County, California, which believes everyone should have a voice in how government works, and supports a decision making process that is open, authentic and represents a broad range of interests. For over a decade WPUSA has led local efforts to ensure private projects that receive taxpayer money produce tangible community benefits. Their work includes tracking and taking action on local government decisions on budgeting and land use, fiscal policy, vital public service preservation and the creation and retention of high quality jobs. In response to WPUSA's research, policy development, and advocacy, in 2007 the City of San Jose adopted a cost-benefit analysis program for projects that receive more than $1 million in public subsidies. This program provides a valuable tool for the public to assess the community value of proposed economic development investments.

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Regarding the specific improvements we recommend in the Exposure Draft:

Require recipient-specific disclosure: The standard as proposed in the Exposure Draft does not require the reporting of the recipient of tax abatements, which significantly reduces the utility of the data. As massive deals between local governments and private developers are becoming more common, issues of accountability and transparency become important regarding fiscal health and impact on communities.

When ALIGN analyzed 15 of the largest subsidy programs in New York, they were unable to access specific recipient information for several of the programs. Although they had submitted several Freedom of Information requests to the state for individual subsidy recipient information, several requests were denied on the basis of privacy, while others took months to fill. The data supplied was inadequate or heavily fragmented. ALIGN's study found that few programs required recipients of subsidies to set performance goals, few monitored the success of projects and few allowed for adequate public review or recourse when corporations fail to live up to their agreements.

The City of San Jose has also suffered from such a lack of transparency and accountability. WPUSA reports that the City of San Jose Redevelopment Agency spent $9 million to bring a 7-story IBM office tower to downtown. It was expected to attract other offices and revitalize the downtown area as well. However, IBM left after three months. Similarly, the City of San Jose granted a $4 million subsidy to bring the Grand Prix to the city in the mid-2000s, with what many citizens felt was inadequate public input. The Grand Prix left shortly thereafter and the taxpayer money was not recouped.

All these issues have major fiscal implications. As cities already collect such information, disclosing it would not be an added burden. Hence by mandating the reporting of recipient-specific disclosure, GASB can help address the underlying issues of transparency and accountability.

Require Future Year Liability Disclosure: While the current Draft requires reporting on current year expenditures, deals spanning into the future can create major fiscal icebergs. As officials overspend on economic development agreements, they are not held accountable and the abatement costs become an issue for future office holders. Similarly, because of the lack of future year information, it becomes impossible to evaluate performance, benchmark progress or conduct analyses to determine if an investment is fiscally sound. In the absence of a standard requiring disclosure of this information, important benchmarking and fiscal information can be withheld. For example, as ALIGN found in New York, only 3 out of 15 of the largest economic

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development programs in New York had established performance goals that were benchmarked and monitored annually.

CPI's experience with recent subsidy deals in the city of San Diego has been that the costs of abatements in the year they are debated and passed is minimal, as most tax abatement deals are refunds of a share of future revenue increases. For example, a recent deal was approved by the San Diego City Council where Illumina, a medical device company, will receive a rebate on sales and use taxes of up to $1.5 million over a period of 10 years. OCCORD echoes similar concerns regarding subsidized developments near the Disneyland Resort in the city of Anaheim.

Hence, future year liability disclosure is essential for maintaining fiscally feasible economic development.

Tax Increment Financing (TIF): TIF is one of the costliest abatement programs used in economic development, and would apparently not be captured under GASB's current definition of tax abatement. Since TIF has grown to be extensive and expensive in many jurisdictions, omitting data regarding it can leave a large fiscal gap in the reporting. This is problematic as they can create fiscal stress when revenue is not generated as predicted. In Denver, FRESC found that TIF expenditures never showed up on the city's books and were invisible to the public. They were not held to the normal cost-benefit analyses that all other budget expenditures are subjected to. While roughly $30 million was diverted from the General Fund to pay for TIF commitments, they found that in 2005 only two out of sixteen projects were exceeding revenue projections, and on average, projects were performing at only 62 percent of original projections. This low rate of revenue, combined with the need for new services that TIF projects generated (such as education, urban drainage, flood control, police and firefighter staffing, and other public services) meant that Denver's other taxpayers paid higher taxes and suffered cutbacks in services.

The lack of transparency here creates a major fiscal blind spot which the GASB standard can help address.

With these comments in mind, we want to thank you for taking such important steps in ensuring that state and local governments account for tax abatements in their financial reports. We hope our comments help you improve the Exposure Draft to better promote fiscal health, accountability, and empower policy makers to make wiser decisions.

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Sincerely,

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